

# HIGHER EDUCATION UPDATE

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## *News from the* CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

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Warren H. Fox  
*Executive Director*

1303 J Street, Suite 500  
Sacramento, California 95814-2938  
Telephone (916) 445-7933 (Voice)  
FAX Number (916) 327-4417

## *Executive Compensation in California Public Higher Education, 1999-2000*

Pursuant to legislative directive, this 1999-2000 Executive Compensation Report is the eighth in a series that reviews the policies and resultant compensation levels for executives in California public higher education. The specific language guiding Commission activities on this issue is:

It is the intent of the Legislature that the University of California and the California State University report to the California Postsecondary Education Commission on January 1 of each year, beginning on January 1, 1993, on the level of the total compensation package for executives of the University of California (including the president, senior and vice presidents, and campus chancellors) and the California State University (including the chancellor, senior and vice chancellors, and campus presidents), respectively . . . It is the intent of the Legislature that the California Postsecondary Education Commission review the information provided and transmit its comments thereon to the Joint Budget Committee, the fiscal committees of each house, the appropriate policy committees of each house, and the Governor on or before March 1 of each year, beginning on March 1, 1993.

In addition, this report includes information on the California Community Colleges.

In responding to the legislative directive, this report will focus on describing changes in the policy or compensation levels over the last 12 months. Additional details and information can be obtained by requesting from the Commission the technical appendix to this report.

### **The Commission's perspective and responsibility regarding executive compensation**

The Commission has historically viewed executive compensation through the following lens:

- ♦ Because executives play various roles in public colleges and universities -- educational leader, corporate administrator, and public servant -- the development of policy and the resultant setting of compensation levels is a complex undertaking that requires an understanding of the myriad responsibilities assumed by these executives at the campus and systemwide levels;
- ♦ College and university executives can contribute immeasurably to the quality of educational environments in which they function;
- ♦ Because the amount of funds allocated for executive compensation is small with respect to an institution's resource base, its relevance in the budgetary context of institutions is relatively insignificant; and

- ◆ Despite the relative small expenditure of funds on executive compensation, this issue has the potential to generate enormous public relations difficulties for institutions.

Because the governing boards of the two public university systems and the local boards of trustees of community college districts set the compensation levels for their executives, the Commission's specific responsibilities with respect to the issue of executive compensation are to provide information on: (1) the policies that guide the setting of compensation levels; (2) the levels set each year; and (3) the relationship between the compensation paid to California's higher education executives and their national comparators.

Additionally, Commission staff participate in discussions about the appropriateness of the set of comparators for the California State University and University of California. In discharging these responsibilities, the Commission has continued to focus its attention on the contribution that strong executive leadership makes to educational quality in California's colleges and universities.

## CALIFORNIA COMMUNITY COLLEGES

### Compensation for executives in community college districts

Each of the 71 community college districts in California is responsible for setting the compensation of its executives. As such, the policies that guide the setting of compensation vary widely across the state as do the resultant compensation levels. Display 1 presents summary information for three types of executives in community college districts: (1) chancellors of multi-college districts; (2) campus presidents within multi-college districts; and (3) superintendents/presidents of single-college districts. In addition, this display provides information on changes in aggregate compensation levels over the last two years. Display 1 includes salary information for all but seven positions.

The trends presented on this display indicate that the pattern of change since 1999-2000 varies by executive type:

- ◆ Average compensation of chancellors of multi-college districts increased by 6.8 percent over last year; average compensation of presidents of campuses within multi-campus districts increased by 4.7 percent; and the average compensation for superintendents/presidents in single-college districts increased by 7.8 percent.

### DISPLAY 1 Compensation of Executives in Community College Districts, 1998-99 and 1999-2000

Type of Executive	1998-99	1999-00	Change
<i>Chancellors of Multi-College Districts*</i>			
Number	20		
Average Annual Salary	\$144,578	\$154,372	+ 6.8%
Lowest Salary	\$128,750	\$135,000	+ 4.9%
Highest Salary	\$179,500	\$186,200	+ 3.7%
Range	\$50,750	\$51,200	+ 0.9%
<i>College Presidents in Multi-College Districts*</i>			
Number	56		
Average Annual Salary	\$111,286	\$116,472	+ 4.7%
Lowest Salary	\$93,516	\$101,160	+ 8.2%
Highest Salary	\$136,024	\$126,911	- 6.7%
Range	\$42,508	\$25,751	-39.4%
<i>Superintendents/Presidents in Single-College Districts*</i>			
Number	51		
Average Annual Salary	\$119,891	\$129,248	+ 7.8%
Lowest Salary	\$96,000	\$98,170	+ 2.3%
Highest Salary	178,002	\$189,140	+ 6.3%
Range	\$82,000	\$90,970	+ 10.9%

- ◆ The salary for the lowest paid chancellorial position has increased by approximately 5.0 percent and the highest paid chancellorial salary increased by 3.7 percent. As a consequence, the difference between the highest paid chancellor and the lowest paid chancellor increased by less than one percent since last year.
- ◆ For presidents in multi-college districts, the salary for the lowest paid president increased by 8.2 percent and that of the highest paid president decreased by 6.7 percent; as such, the difference between the salaries of the highest and lowest paid president in multi-college districts decreased by 39.4 percent.
- ◆ For superintendent/presidents in single-college districts, the lowest salary increased by 2.3 percent while the highest salary increased by 6.3 percent. The difference between the highest and lowest paid superintendent/president in single-college districts increased by 10.9 percent.

### Compensation for systemwide executives

The Chancellor's Office of the California Community Colleges is a State agency that operates under the rules, regulations, and procedures set by the Department of Personnel Administration, the State Personnel Board, and the

Department of Finance. Unlike its public higher education counterparts, the Board of Governors is restricted in its actions by the State bureaucracy in terms of its ability to establish compensation levels for its executive staff.

The salaries for executives in the Community College Chancellor's Office range from \$80,494 to \$169,860. These positions are comprised of a combination of civil service, exempt positions, and persons hired under interjurisdictional exchange agreements. The Chancellor's current salary is \$169,860, an increase of \$20,520 or 13.7 percent, since the Commission's last report. Additionally, the Deputy Chancellor earns an annual salary of \$118,524, including an increase of 6.6 percent over last year. The salaries for the six vice chancellorial positions range from \$96,696 to \$108,324, with an average salary of \$100,248. This is a 10.5 percent increase over last year.

### **Commission Comments**

As the Commission has discussed in the past, the basic principle underlying executive compensation among community college districts continues to be autonomy and flexibility. Each district makes a determination presumably based upon its financial condition, performance of the incumbent, local living costs, and board prerogatives. As Display 1 evidences, this principle has resulted in disparities within the community college system. The disparity among chancellors in multi-college districts has remained relatively unchanged over the last year while it has decreased for presidents in multi-college districts and increased for superintendents/presidents of single-college districts during that same period.

As previously noted, the Chancellor's Office is part of State government and salaries are set by administrative State agencies. This past year, the Chancellor was granted a 13.7 percent salary adjustment bringing his annual compensation level to \$169,860. With this increase, the compensation level of the Chancellor has increased by 34 percent since 1997. Because this position assumes leadership over the largest and most complex postsecondary education system in the state, and indeed the nation, as well as plays a key role in the educational quality, scope of services, and general direction that the community colleges will take in the future, this development is largely viewed as positive by the Commission. The Commission believes that these recent increases in the compensation level for its Chancellor places the system in

a much better position to compete for executives with the expertise and experience commensurate with the needs of the position. To ensure that this system maintains its capacity to compete in the marketplace for the leadership that the system requires, the Commission recommends that the Board of Governors annually review the compensation level for this position and negotiate increases, when appropriate.

The Commission commented in its 1993-94 report in this series that "the combination of exempt, Career Executive Appointments (CEA), and Interjurisdictional Exchanges creates a complex and perhaps overly complicated configuration of personnel and salary levels." The Chancellor's Office continues to use a variety of personnel classifications among its executive staff with some state employees and others serving in their capacity through an Interjurisdictional Exchange. While this makes for a certain lack of clarity with respect to the various classifications and responsibilities of the executive staff, it does provide the Chancellor's Office with the ability to make use of the vast expertise of individuals who have served the system well at the campus level.

## **CALIFORNIA STATE UNIVERSITY**

### **Current policy on executive compensation**

The California State University's policy on executive compensation calls for the State University to set its average compensation for campus presidents at the mean of presidential salaries at an established set of comparable institutions in the nation. Further, the policy recommends that the specific compensation for each president be based on the "mission, scope, size, complexity, and programs of each campus" and an appraisal of individual performance and experience as well as system and national policy leadership. Also taken into consideration are regional cost of living differentials and the need to maintain a competitive market position.

### **Compensation for campus presidents**

In the mid 1990's, the Commission's executive compensation reports revealed a growing gap in the salaries of the presidents of the California State University campuses and those of the presidents of their national comparison institutions. Because the Board of Trustees viewed the gap in compensation levels between its presidents and the national comparators as increasingly problematic to the system's ability to recruit qualified executives, it estab-

lished a committee in January 1997 to examine this situation in a comprehensive manner and to make recommendations about actions that it could take in the future. This committee reported in 1997 and recommended that the lag of 30 percent that existed at that time be substantially reduced over the next three years. The first phase of the multi-year recommendation was implemented in September of 1997 with the Board of Trustees approving salary adjustments for the presidents that averaged 10 percent for the 1997-98 academic year. The second phase of the multi-year recommendation was implemented in September of 1998 with Board approval of salary increases for the presidents that averaged 11.7 percent. The third and final year of the recommendation was implemented in September 1999 with Board approval of salary increases for the presidents that averaged 13 percent. This report represents this final year of the Trustees' formal plan to reduce the lag.

Display 2 presents the compensation levels for the presidents of the State University's 22 campuses.

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*DISPLAY 2 Compensation for Presidents of 22 California State University Campuses, 1998-99 and 1999-2000*

	<u>1998-99</u>	<u>1999-00</u>	<u>Change</u>
Average Annual Salary*	\$174,412	\$197,206	+13.0%
Lowest Salary	\$142,920	\$162,012	+13.4%
Highest Salary	\$202,404	\$229,440	+13.4%
Difference between highest/lowest salaries	\$59,484	\$67,428	+13.4%

\* Data excludes Channel Islands.

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The total increase in executive compensation for all 22 campus presidents was \$501,468 for the 1999-2000 fiscal year. All campus presidents received a salary adjustment in the current year. The salary adjustments ranged from 7.6 percent to 15 percent, with the average increase as reported above at 13 percent.

During the reporting period, two California State University campuses underwent changes in leadership. An interim president was appointed for California State University, Northridge, effective June 1999, which was followed by the appointment of a permanent president for the campus, to be effective July 2000. Further, a new president was appointed for California State University, Dominguez Hills, effective June 1, 1999.

In addition to their base salaries, all presidents receive assistance with housing. Eight presidents live in houses provided and maintained by the State University; the other presidents receive an annual housing allowance ranging from \$20,000 to \$32,000, depending upon cost-of-living differentials. No increase in housing allowances were reported for this period. Further, campus presidents have access to either a State-owned automobile for business purposes or are provided an automobile allowance of \$750 per month in lieu of a university vehicle to support university related business travel requirements. In addition, presidents are reimbursed for entertainment expenses incurred as part of University-related activities in accordance with the system's rules and regulations.

### **Salary comparisons between the State University and similar institutions nationally**

As indicated above, the State University's policy stipulates that its average presidential salary should be set at approximately the mean of comparison institutions nationally. For several years, the State University and the Commission have agreed upon a set of 20 institutions that serve as the State University's comparators for the purpose of gauging the extent to which its salaries are similar to those of institutions with which it competes for executives. Five comparators are independent institutions. The remaining 15 are public universities.

A private consulting firm gathered information on the compensation of the chief executive officers at the 20 comparison institutions for the 1999-2000 Academic Year.

The chief executive officers of the comparators will earn an average of \$214,811 in this academic year; the corresponding figure for the 22 State University presidents is \$197,206. Four of the twenty-two of the State University presidential salaries exceed the mean of the comparators.

*Lag in salaries at the presidential level:* The lag between the average salary of State University presidents and its national comparators over the past seven years is presented in Display 3. In 1994-95, the salary lag doubled from 11.1 percent to 22.5 percent and continued to rise to 31.9 percent in 1995-96. The average salaries for the CSU presidents rose by 19.1 percent between 1993-94 and 1997-98, while those of its comparison institutions rose by over 32 percent.

As previously discussed, deliberate action was taken by the Board of Trustees in 1997 to make progress towards

eliminating the lag with its national comparators. As a result of the actions taken by the Board of Trustees in 1997, 1998, and 1999, the rate of change in salaries of CSU presidents has exceeded that of its comparison institutions. During the most recent seven-year period beginning in 1993-94, the average salaries at the national comparison institutions has risen by 48.2 percent; the corresponding change at the State University for this time period has been approximately 51.2 percent. While the Trustees' plan did not ultimately result in the elimination of the gap entirely, the substantial salary adjustments made over the last three years have clearly contributed to reducing the lag by 70 percent -- from 30 percent in 1996-97 to the current gap of 8.9 percent. Display 3 illustrates the progress the California State University has made during the three-year implementation period set forth to eliminate the lag.

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*DISPLAY 3 Average Compensation for California State University Presidents and Their National Comparators, 1993-94 to 1999-2000*

	National Comparators	California State University	Salary Lag
1993-94	\$144,908	\$130,462	- 11.1%
1994-95	\$162,728	\$132,796	- 22.5%
1995-96	\$179,180	\$135,870	- 31.9%
1996-97	\$184,415	\$141,865	- 30.0%
1997-98	\$191,426	\$155,360	- 23.2%
1998-99	\$200,684	\$174,412	- 15.1%
1999-00	\$214,811	\$197,206	- 8.9%
7-Year Average	48.2%	51.2%	

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### Compensation for systemwide executives

There are six positions that constitute the executive staff at the Chancellor's Office of the California State University. They include: (1) the Chancellor; (2) the Executive Vice Chancellor and Chief Academic Officer; (3) the Executive Vice Chancellor and Chief Financial Officer; (4) the Vice Chancellor, University Advancement; (5) Vice Chancellor, Human Resources; and (6) General Counsel.

The compensation level for the Chancellor is \$285,360 which represents a 7.0 percent increase over the 1998-99 level. The Executive Vice Chancellor and Chief Executive Academic Officer's salary increased by 7.0 percent to its current level of \$215,508. The salaries for the remaining executives now range from \$171,900 to \$211,944.

In addition to a base salary, the Chancellor lives in University-provided housing. Automobile allowances or use of State-owned vehicles for University business are part of the compensation package for the systemwide executives. The Chancellor and Executive Vice Chancellor and Chief Academic Officer receive a supplemental retirement plan through the CSU Foundation to augment their Public Employees' Retirement System (PERS) retirement benefit which is limited by the federal Internal Revenue Service "cap" on eligible PERS retirement compensation. Finally, executives are reimbursed for entertainment expenses incurred in conjunction with University-related activities in accordance with the system's rules and regulations.

### Commission comments

Because it regards executive compensation as a factor affecting educational quality, the Commission has shared the concerns of the Trustees about the lag in presidential salaries. During the mid 1990s, the lag was clearly counter to the State's interest; if permitted to grow, the gap could hamper the State University's ability to enhance its leadership cadre -- a high priority for the system, the Commission, and the State.

In the past, the Commission has been supportive generally of the recommendations on executive compensation from the Trustees. The Commission continues to support the efforts of the Board of Trustees to ensure that executive compensation is adequate to recruit and retain capable future campus leaders, provided additional resources allotted are considered in conjunction with other pressing demands for university resources.

## UNIVERSITY OF CALIFORNIA

### Current policy on executive compensation

Since the significant changes in the University of California's policy on executive compensation in the early 1990s, the policy has remained constant with one exception this year. Specifically, this policy calls for the Board of Regents to set the average compensation level for chancellors at the mean of its national comparators, with the actual level paid to each chancellor a function of "the scope, size, complexity, and quality of each campus" as well as the performance and experience of the incumbent. This policy is expected to both "maintain a competitive market position and recognize individual performance." A hallmark of the policy is the establishment of an internal

alignment among and between the set of chancellor positions and executives in the systemwide office. The new policy to be implemented this year relates to addressing limitations on retirement benefits and is discussed in more detail later in this report.

### Addition of tenth campus

For the first time, this report includes information on the salary levels for the chancellor at the new University of California, Merced campus. Given that the University structures its salary levels for Chancellors in part on the size of the campus he or she leads, UC Merced is grouped alongside the other two small campuses, UC Riverside and UC Santa Cruz, for this purpose. Any comparisons made with previous years should take this factor into account.

### Compensation for University chancellors

Display 4 presents information on the aggregate changes in compensation levels over the last two years for the chancellorial positions in the University. Effective October 1, 1999, the University of California Board of Regents approved an average 3.5 percent merit salary adjustment for its chancellors, plus equity adjustments of approximately 5.0 percent for eight chancellors. Excluding the chancellor at UC San Francisco because of its unique

focus, salary increases for the nine general campuses average 7.8 percent. The salary adjustments for the chancellors of the eight preexisting general UC campuses (excluding UC Merced and UC San Francisco) for 1999-2000 average 9.2 percent and total \$180,100.

As previously noted, since the Commission's last report, one new chancellor was appointed, effective August 1, 1999. This new chancellor is responsible for overall planning and development of the University's tenth campus, UC Merced.

In addition to a base salary, University chancellors live in University-provided housing. University-leased vehicles are provided to chancellors for their use on campus business and they receive reimbursement for expenses incurred in conjunction with University business through procedures consistent with University Administrative Fund guidelines.

### Salary comparisons between the University and similar institutions nationally

As with the State University, the executive compensation policy calls for the University of California to set its average chancellorial salary at the mean of its national comparators. The University has two sets of national comparators: (1) the All-University Set of 26 positions in 21 institutions, and (2) its Comparison Eight Faculty Salary Set.

*The All-University Set:* Of the 26 positions for which data was obtained, 14 are in public universities and 12 are in independent universities. A private consulting firm analyzed information from all comparison institutions. The salary adjustments which became effective for the 10 University of California chancellors as of October 1, 1999 result in a current average salary of \$270,500 as contrasted with the average salaries at their comparison institutions as of July 1, 1999, of \$296,284. In this instance, the lag between UC chancellors and their comparators is 9.5 percent. However, when the salary of the chancellor at the UC San Francisco health science campus is excluded, the average salary of the nine UC chancellors falls to \$263,333, and the lag is 12.5 percent.

*Faculty Salary Set:* UC compares less favorably to the Comparison Eight Faculty Salary Set than the Full Comparison Group. The comparison faculty salary set of eight institutions is evenly divided between public and independent institutions. (One private institution declined to participate this year, so its 1998 data was used and adjusted

**DISPLAY 4** *Compensation for Chancellors at the University of California, 1998-99 and 1999-2000\**

	October 1998	October 1999*	Change
Lowest Salary	\$229,000	\$235,000	+2.6%
Highest Salary (excluding UCSF)	\$271,400	\$294,500	+8.5%
Difference between highest/lowest salaries	\$42,400	\$59,500	+40.3%
Average Annual Salary (includes 9 campuses for 1998; ten campuses for 1999)	\$253,133	\$270,500	+6.9%
Average Annual Salary** (excludes San Francisco)	\$244,363	\$263,333	+7.8%

\*This is the first year for which the salary for the Chancellor for the University of California, Merced is included.

\*\*Of the nine general campuses only. Excludes the Chancellor of the University of California, San Francisco because of the uniqueness of the campus.

by 3.8%.) The average salary of the presidents/chancellors at these institutions is \$313,538. As a result, when the San Francisco campus is included, the lag between the faculty salary set of comparators and the University of California is 15.9 percent. Excluding the San Francisco campus, the lag increases to 19.1 percent.

*Caveat about these comparisons:* The comparisons between both the All-University set and the Faculty Salary Set of institutions presented above possibly underestimates the lag that currently exists with respect to salaries for the chancellors of the University of California. The figures used to compute the gap are taken from two different times: the University of California salaries reflect upward adjustments made as of October 1, 1999; figures for the comparators were effective as of July 1, 1999. As such, the differences in salary setting schedules between the University and some of its comparators may, to some extent, minimize the magnitude of the gap.

### **Compensation for systemwide executives**

The salary of the President of the University of California is \$337,300, effective October 1, 1999. This represents a combined equity adjustment and merit increase of 8.5 percent since last year.

As has been noted in earlier reports, the University policy calls for the salaries for executive positions at the systemwide office to be aligned in a specific manner with those of the chancellors for the various campuses. When the University of California Board of Regents responded to market pressures with equity increases for its chancellors in 1998-99, the salaries of the senior vice presidents fell below that of all the chancellors. To rectify this misalignment, the Board of Regents responded with salary increases for both the Provost and Senior Vice President of Academic Affairs and the Senior Vice President of Business and Finance that consisted of equity adjustments of 15 percent in addition to merit adjustments for 1999-2000. As a result, the annual base salary for the Provost and Senior Vice President of Academic Affairs is \$262,000 -- an 18.6 percent increase over last year. In addition, the Senior Vice President of Business and Finance will earn \$260,000, an 18.2 percent over last year.

Five of the six vice presidents earn an annual base salary ranging between \$190,000 and \$222,500. With the exception of one vice president who has retired and, as such, received no salary adjustment, these salary levels

represent an average annual increase of 8.4 percent. Because of the uniqueness of the position, the vice president for Clinical Services Development earns considerably more than the other vice presidents at an annual base salary of \$376,000, which is an increase of 8.4 percent over last year.

In addition, to a base salary, the University of California President lives in University-provided housing. All executives have University-leased automobiles or are reimbursed for expenses incurred in conjunction with the conduct of University business. Further, they are reimbursed for appropriate University expenses in conjunction with the discharge of their University responsibilities and in accordance with Administrative Fund guidelines.

In February 1999, the University of California Board of Regents approved plans to restore the University retirement plan benefits earned but denied to University faculty and staff because of Internal Revenue Code limitations. In January 2000, the University established the University of California 415 (m) Restoration Plan to provide payment of earned retirement benefits that would not otherwise be payable due to the annual payment limitation of Internal Revenue Service Section 415 (b). Should the plans be approved by the Internal Revenue Service, the program would apply to some University faculty, staff, and retirees, and benefits would be provided as of January 1, 2000.

### **Commission comments**

In previous reports, the Commission noted that the University was continuing its efforts to enhance the simplicity of its executive compensation policies, to facilitate a better understanding of them by others, and to establish greater equity in benefits between executives and other University staff. It has commended the University for simplifying their executive compensation policies such that they are more understandable to both policy makers and the general public.

The University continues to be mindful of the overall structure it has put in place for executive compensation and demonstrated its commitment to this structure this year through its efforts at realignment such that the original structure is reestablished.

Display 5 presents the trend in compensation paid to the University's campus chancellors and their national comparators over the last six years.

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*DISPLAY 5 Average Compensation for University of California Chancellors at the General Campuses and Their National Comparators, 1993-94 to 1999-2000*

	All University Set <sup>1</sup>	University of California (excludes UCSF) <sup>2</sup>	Salary Lag
1993-94	\$ 215,765	\$ 181,950	- 18.6%
1994-95	\$ 202,580	\$ 181,413	- 11.7%
1995-96	\$ 214,546	\$ 189,300	- 13.3%
1996-97	\$ 214,209	\$ 199,413	- 7.4%
1997-98	\$ 257,791	\$ 207,238	- 24.4%
1998-99	\$ 284,116	\$ 244,363	- 16.3%
1999-00 <sup>3</sup>	\$296,284	\$263,333	-12.5%
7-Year Average	37.3%	44.8%	

1. Figures as of July 1 each year.

2. Figures for 1993-96 are reflective of salary levels taken at different points during the year. 1997-2000 figures are as of November 1.

3. Figures for 1999-2000 include the salary for the Chancellor of the University of California, Merced.

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During the six-year period between 1993-94 and 1999-2000, salaries at the comparison institutions have increased by 37.3 percent; at the University, the corresponding increase has been 44.8 percent. The salary lag in 1993-94 was 18.6 percent. In 1997-98, the gap had reached a high of 24.4 percent -- a trend the Commission concluded in previous reports was alarming and potentially detrimental to the University's ability to compete nationally for its executive leadership. However, the actions taken by the Board of Regents to implement both merit salary increases as well as market based equity adjustments for the past two years have reversed this trend significantly. The actions undertaken by the Board of Regents for the 1998-99 and then again for the 1999-2000 year reduced the lag by approximately one-half and, as a result, has significantly improved the University's position to recruit and compete for executive leadership.